# The Real Estate ANALYST

MARCH 30 1949

A concise, easily digested periodic analysis based upon scientific research in real estate fundamentals and trends. A report on current studies, surveys, and forecasts constantly measuring the basic economic factors responsible for changes in trends and values.

Volume XVIII

Number 13




REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

## CONSTRUCTION COSTS ARE TOPPING OUT

APPARENTLY after several false starts residential construction costs are beginning their long awaited decline. Reports from our correspondents throughout the country indicate that in many of the cities covered in this report, building costs have dropped slightly. The chief causes for these declines have been an improved working efficiency on the part of building mechanics and a slow and steady drop in the prices of many building materials, notably lumber.

In those areas most distant from steel and cement mills there have been slight increases in the cost of constructing steel and concrete buildings. This is doubtless the result of the abandonment of the basing point price system by the two

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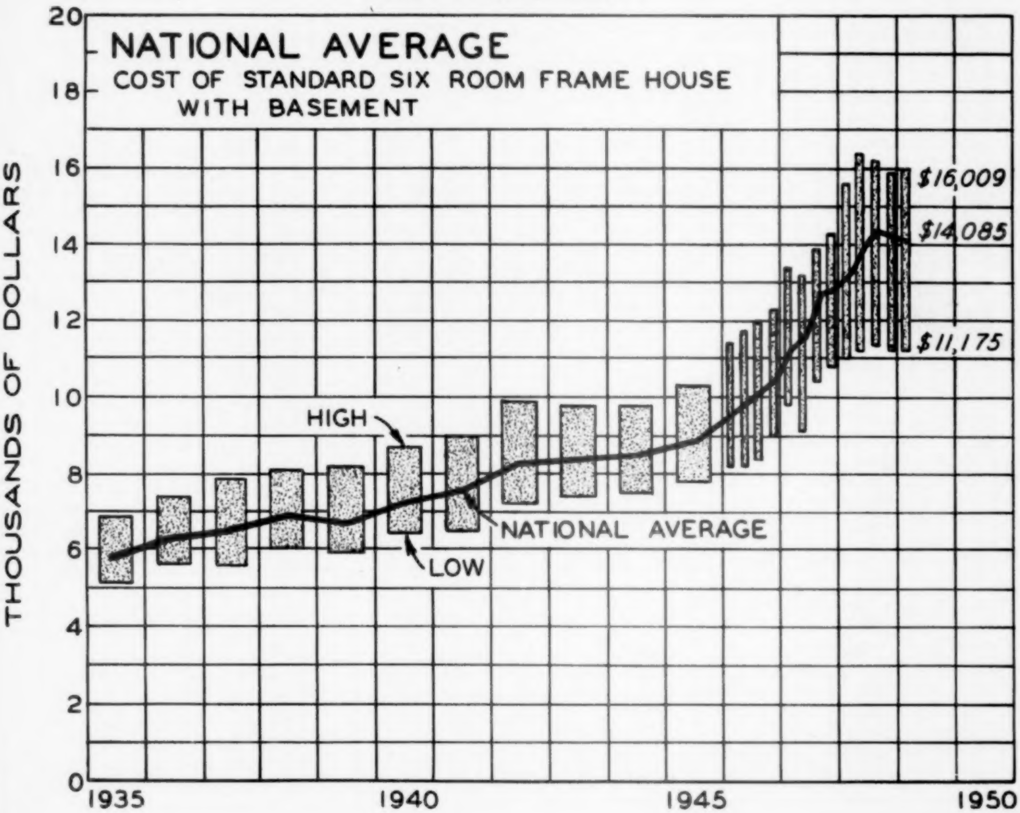
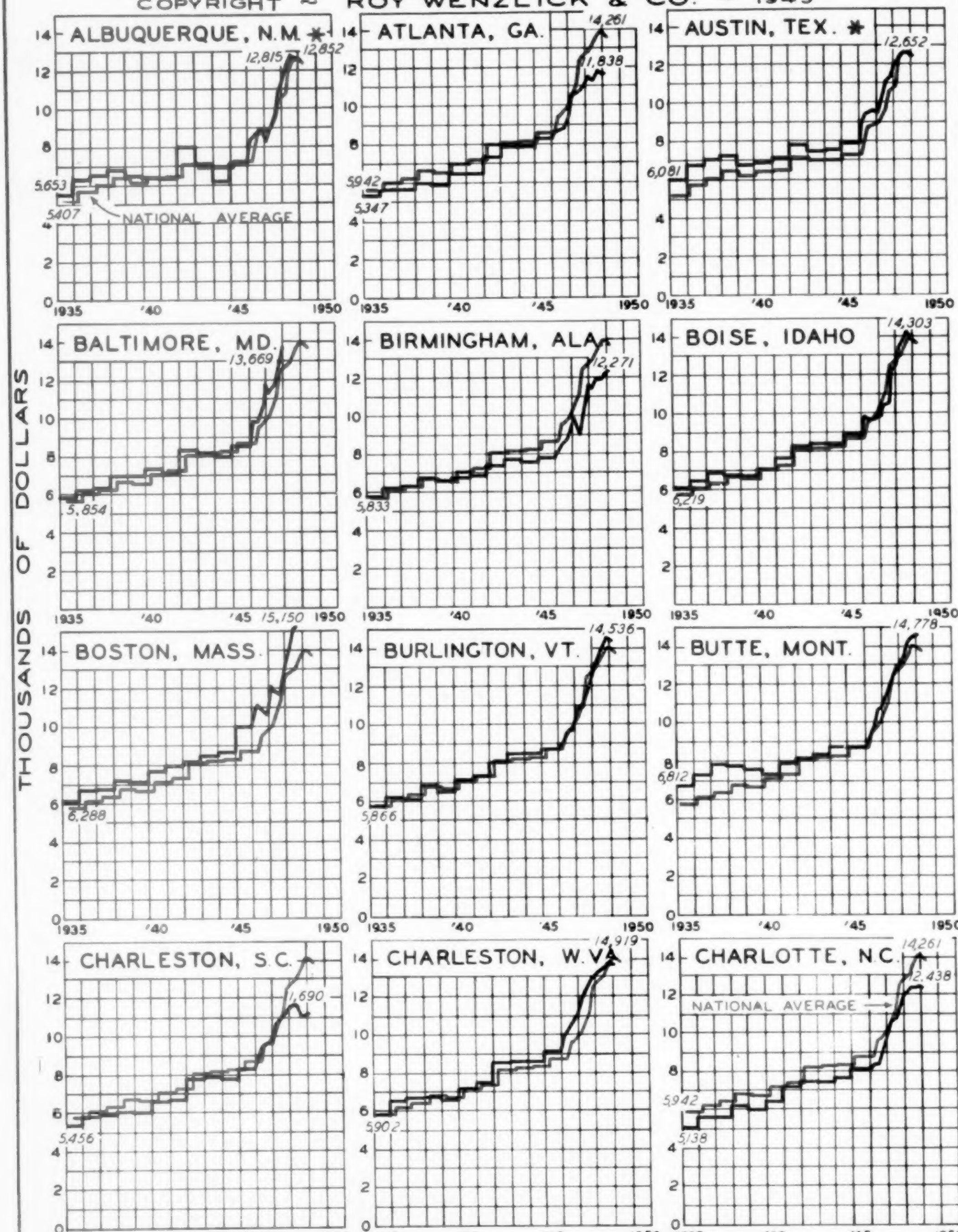


# TOTAL CONSTRUCTION COSTS OF A STANDARD SIX ROOM FRAME HOUSE BY CITIES






* FIGURED WITHOUT BASEMENT NOR CENTRAL HEATING BUT WITH FLOOR FURNACE

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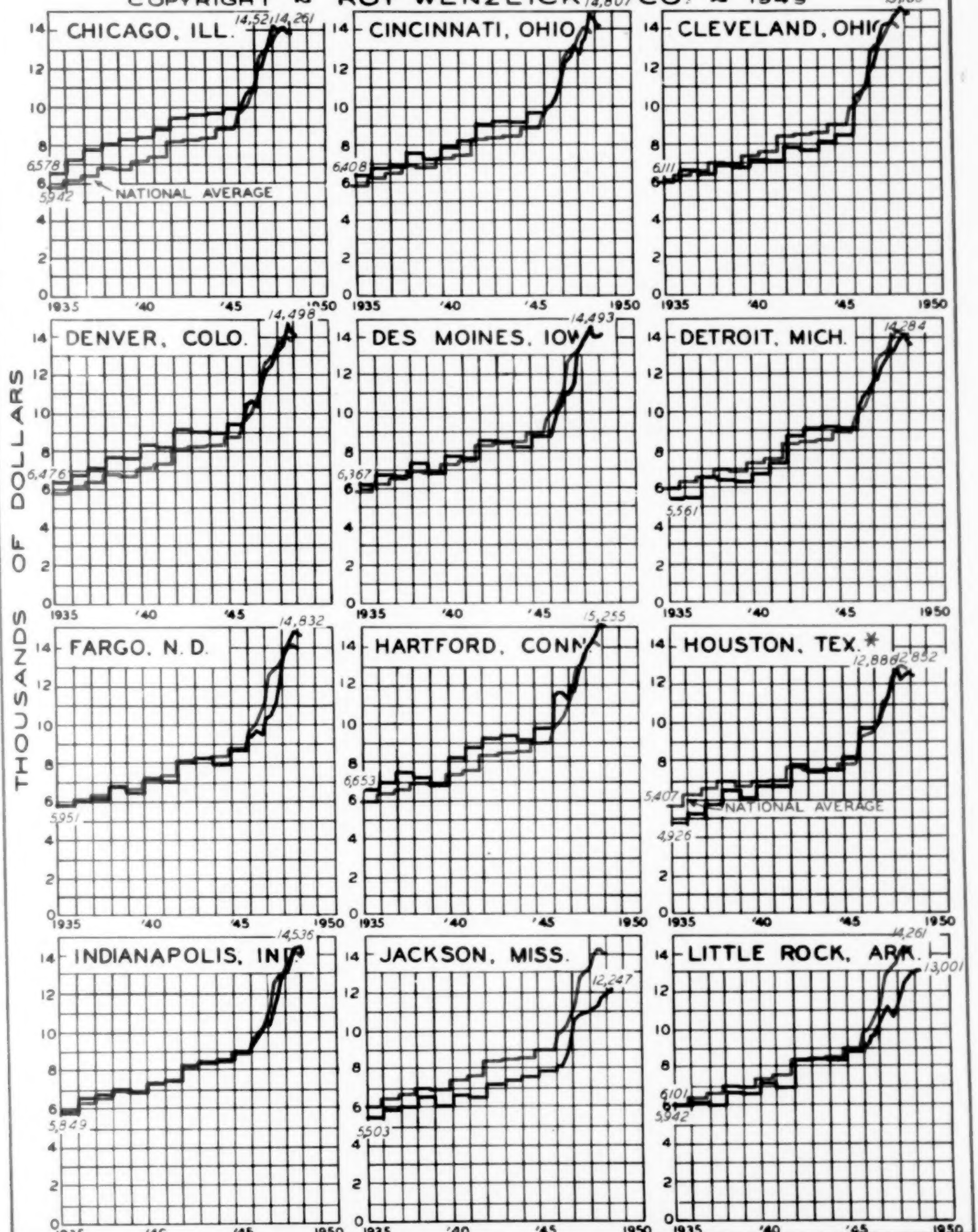


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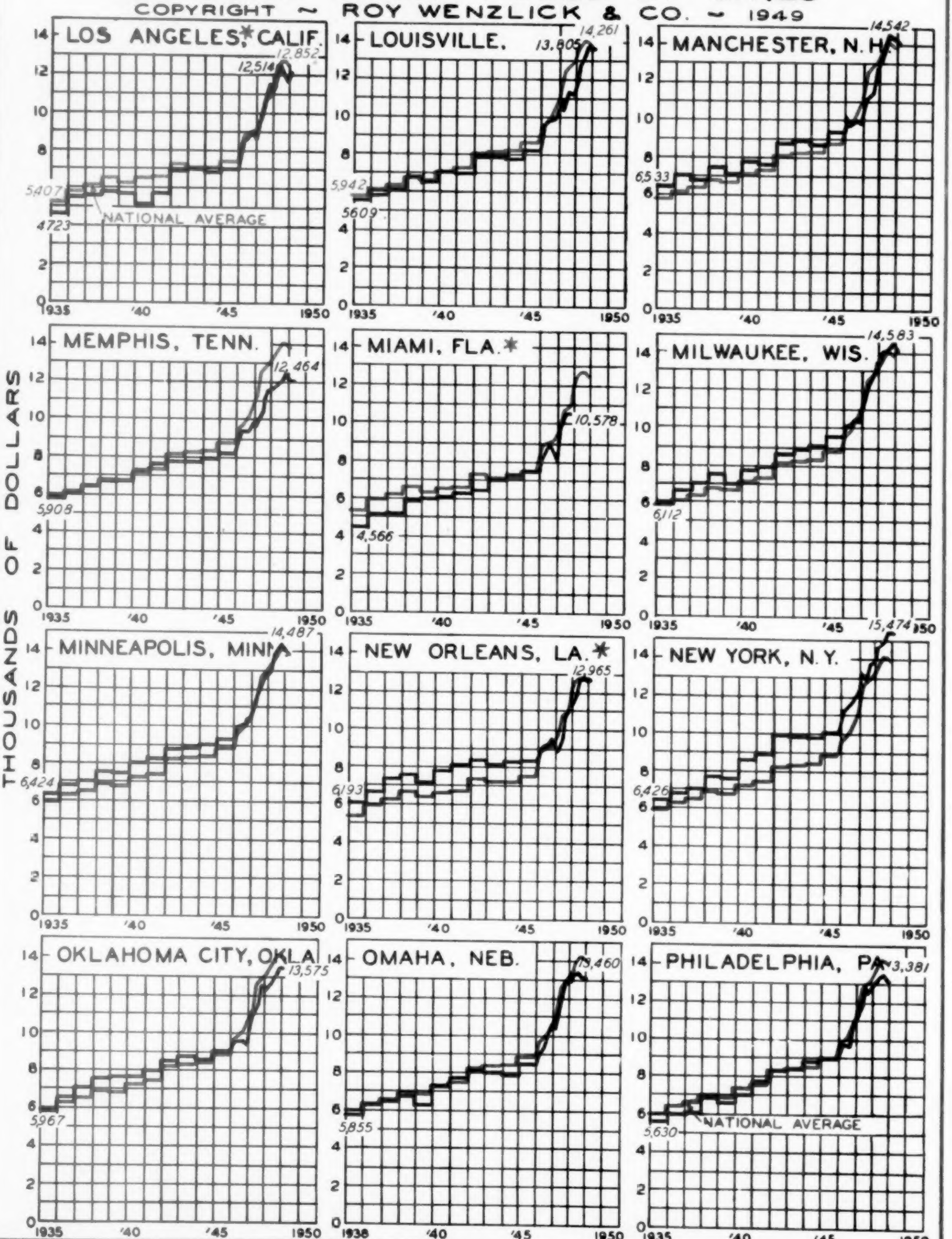




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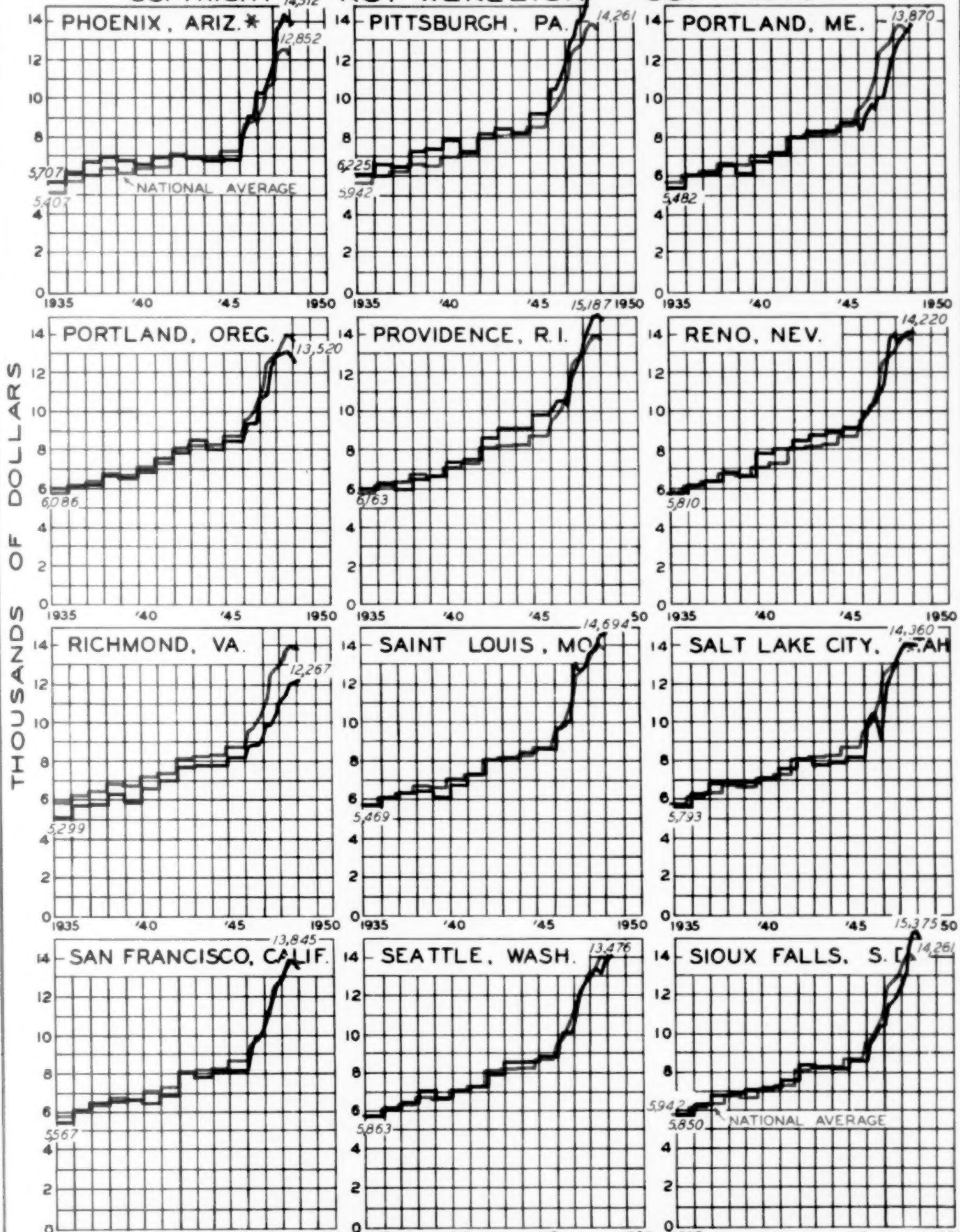


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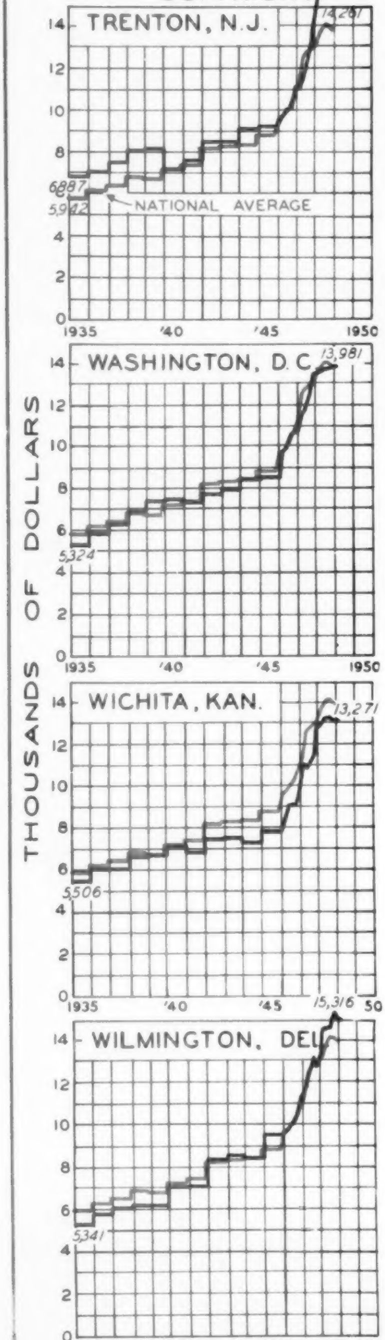



(cont. from page 101)

industries. For example, in Milwaukee cement delivered to the job costs in the neighborhood of $3.60 per barrel. However, when it is necessary to bring cement in from distant mills, the cost runs as high as $4.40 per barrel.

The building industry has done an outstanding job during the postwar period in supplying over 2-1/2 million nonfarm residential units in the last three years. The National Association of Home Builders of the United States has played an important part in this building program and will no doubt continue to provide forward-looking, aggressive leadership.

We are, however, in disagreement with some of the remarks made by their President, Rodney M. Lockwood, in a recent letter to members of the Association. Mr. Lockwood, in discussing housing price levels, makes the rather surprising statement:

> Anyone who contends that we can expect any downward movement of any consequence in housing prices without first forcing the country into a depression of major proportions is simply ignoring the plain history of American economics for the past hundred years or more. Careful study of that history justifies the conclusion that housing costs will rise steadily during the next ten years. The upward movement may be reasonably slow but it will be steady. As a result the purchaser of a new home will pay more dollars in the years ahead than he would for a similar house today. An intervening recession would interrupt this upward trend; and during the recessional period prices probably would be depressed temporarily below current levels, but this retreat in costs and prices would be only a temporary dip--a small valley intervening between the foothills and the greater heights ahead.

As a matter of record, construction costs reached a peak in 1920. From 1920 to 1922 they dropped about

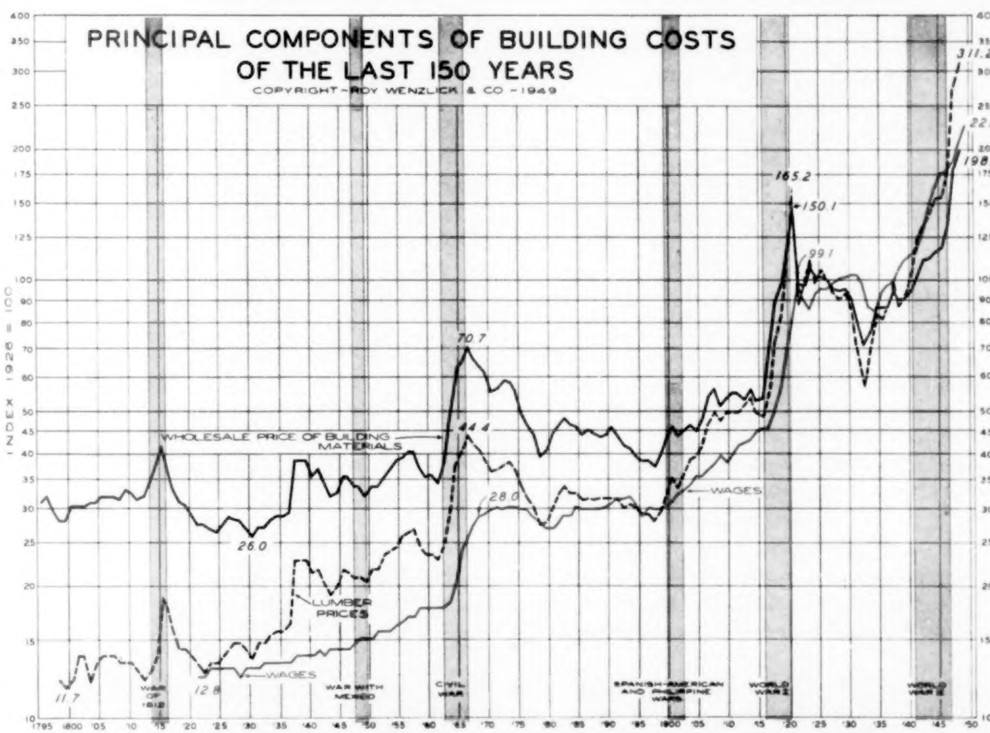
20% and helped usher in the biggest housing boom the nation has ever experienced. The price drops in that period were severe, but they certainly did not constitute a depression of major proportions. While Mr. Lockwood is correct in referring to the historical upward movement in construction costs, he is incorrect in alluding to the short length of time between the dips.

The chart at the bottom of the page is one we have published many times in our bulletins. Notice the long downward trend of building material costs following the inflationary periods after the Civil War and World War I.

After reaching their peak in 1920, construction costs did not attain that level again until 1942, twenty-two years later. It is true that an upward course of construction costs has prevailed for over 150 years but the intervals between the peaks are usually quite extensive.

We expect the construction cost on our standard six-room frame house to drop to about $10,300 by the middle 1950's. Since this house costs about $14,700 today, a drop of this size would represent a 30% reduction. We believe that by that time real estate will be so depressed that financing the construction of a new house may be quite difficult. It is almost certain to be more difficult than it is today.

On page 101 appears a chart showing the national average cost of our standard six-room frame house from 1935 to the present. The shaded bars represent the price range in the different cities during each year and the red line shows the average. The figures in this chart represent the cost of a house with full basement.



# LABOR ALSO SHARES ITS WEALTH

DURING the past four months a great deal has been written regarding the various mandates the President received at the polls last November. Under Roman law a mandate was a contract under which one party agreed to perform gratuitously some act for another who agreed in turn to indemnify him. Apparently the modern application of the term is for the Democratic party to perform gratuitous acts for certain groups of voters in return for being indemnified against political defeat in 1950 and 1952. In this instance, while there is no contract involved, the intent seems obvious.

A salient point that is constantly overlooked by the party of the second part is that no government can provide them with gratuities of any consequence over an extended period. Another point frequently overlooked is that the burden of providing these gratuities falls on all taxpayers. To be sure, the wherewithal is derived essentially from "soaking the rich," or strengthening the weak by weakening the strong, but all taxpayers are called upon to some extent to underwrite the governmental blessings.

Mr. Truman seems to feel that one of his most pressing obligations is owed to the laboring classes. Therefore, in addition to instigating agreeable labor legislation he feels constrained to offer broader Social Security benefits, public housing, socialized medicine and other government assistance. Voters in the laboring classes are once again apt to view the proceeds from these measures as manna from heaven and will fail to recognize the stiff price they must inevitably pay for them.

The 6 charts on page 109 show the portion of annual wages paid in Federal taxes by the average manufacturing worker and by workers in 5 leading manufacturing industries. The taxes are those paid by a married worker with no dependent children. Wage figures are derived from those published by the Bureau of Labor Statistics.

The solid blue line represents the worker's annual wages before taxes from 1940 through 1948. The red line shows what those wages were after Federal taxes. Naturally, the shaded red area represents the amount he has paid in taxes during the 9-year period. The figure to the right of the shaded area equals the dollar amount covered by the area.

The dashed blue line is purely hypothetical. It shows what the worker's wages would have been (before taxes) if his pay had risen only so fast as the cost of living. The course these dotted blue lines follow indicates that in all cases except the automobile workers, wages as shown by the solid blue line have risen much faster than has the cost of living. In the case of the automobile workers, the hypothetical wage line went above the actual wage line only in 1948.

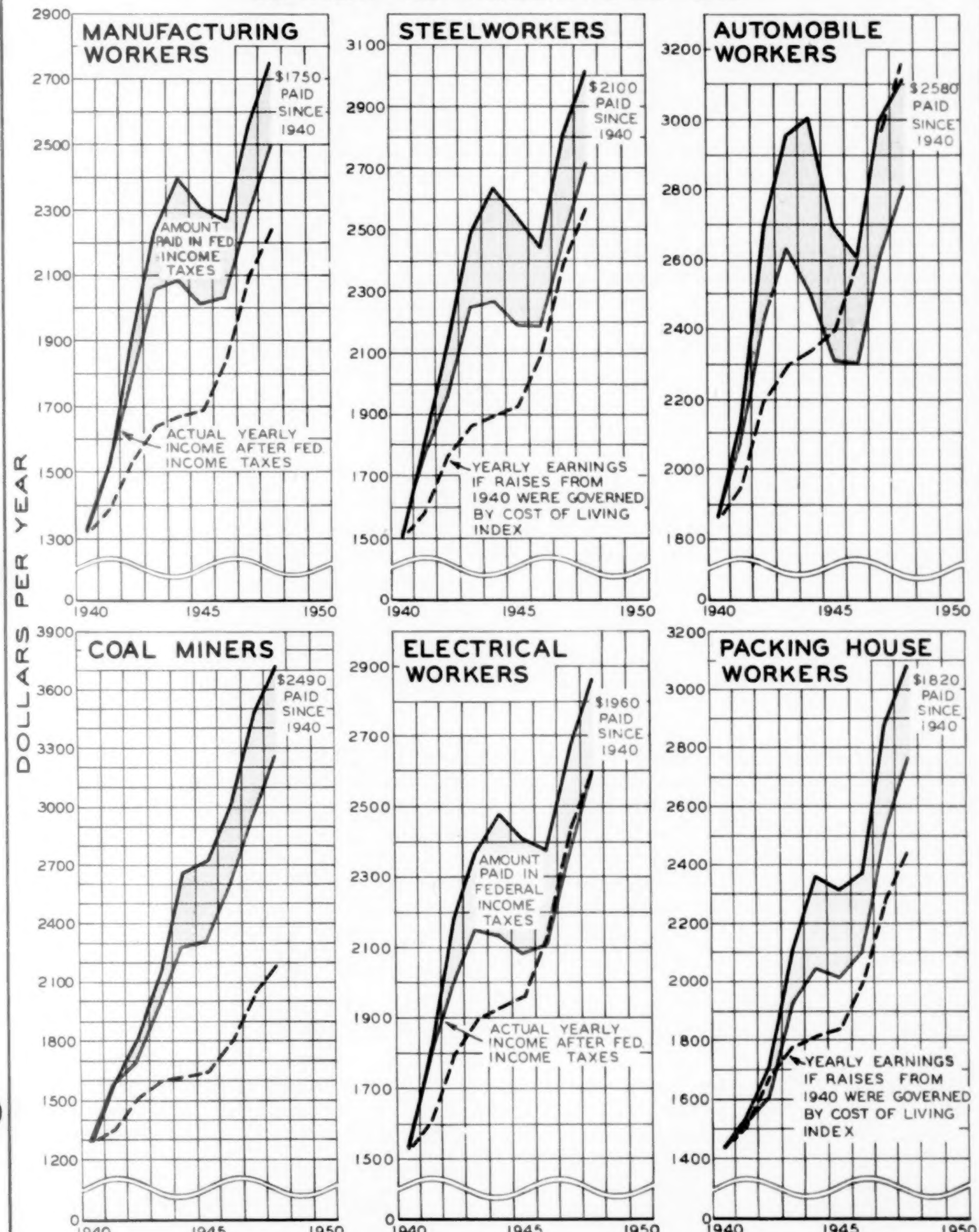
A shortage of coal supplies, translated into a shortage of steel, caused layoffs in the automotive industry during last year. These layoffs, induced by strikes in the coal industry, affected the wages of the automobile workers to the extent that actual wages dropped below the hypothetical wage.

The most outstanding fact shown by these charts is that "take home" pay is
(cont. on page 115)

# INCOME BALANCE SHEET

OF WORKERS IN SELECTED INDUSTRIES, MARRIED - NO CHILDREN





# REAL ESTATE HOLDINGS OF INSURANCE COMPANIES

THE chart on page 112 shows that in the last two years the twenty largest life insurance companies of the United States and Canada have gone in rather heavily for government guaranteed mortgages. That this increase coincides so nearly with the downturn of the real estate cycle indicates that these companies are in very close contact with the trends that have been developing in the real estate market since the middle of 1946.

With the responsibility of investing millions of dollars each day, insurance companies (as well as other lenders) are in many cases passing up high-equity, unguaranteed loans in favor of the thin-equity, low-return loans backed by the government. As we have stated before, the prudent lender cannot afford to overlook the safety of dropping a stack of government-insured mortgages into his portfolio. Although we oppose government guarantees in principle, we must admit that they offer a degree of safety to the lender hitherto unavailable.

At the end of 1948 the total insured mortgages held by these twenty companies reached $1.970 billion, an increase of over 200% above the 1946 total. The red line running through the chart shows the percentage of total mortgage value represented by insured loans. This line follows virtually the same trend that is followed by the bar chart.

On the page opposite appears a chart showing the dollar value of housing projects owned by these same twenty companies. The red line shows the percentage of real estate owned represented by housing projects, while the blue line shows the percentage of the companies' total real estate holdings represented by housing projects.

In studying both of these charts and the accompanying table, the fact that dollar value is used in the presentation should be kept in mind. Since 1940, the percentage of housing projects to total real estate owned (red line) has risen from 3.8% to 28.9%.

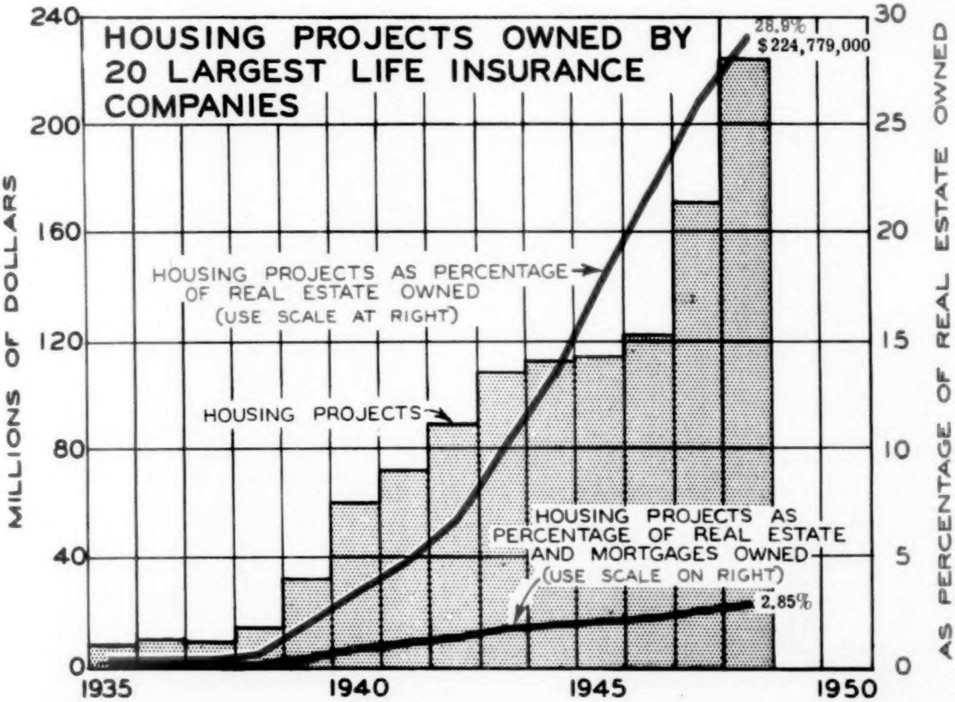
One reason for this apparent jump is the fact that the dollar volume of real estate owned by these companies has dropped more than 50%. The total real estate holdings of these companies (mortgages held plus property owned) reached a peak of $7.877 billion in 1948. This is 26% above the total of $6.257 billion held in 1941. Here the fact that these figures represent dollar volume indicates that the total number of real estate holdings of these companies has probably decreased quite sizably. This is the case because most real estate values have increased roughly 100% since 1941, whereas the holdings of the twenty companies have increased only 26% in value since that time.

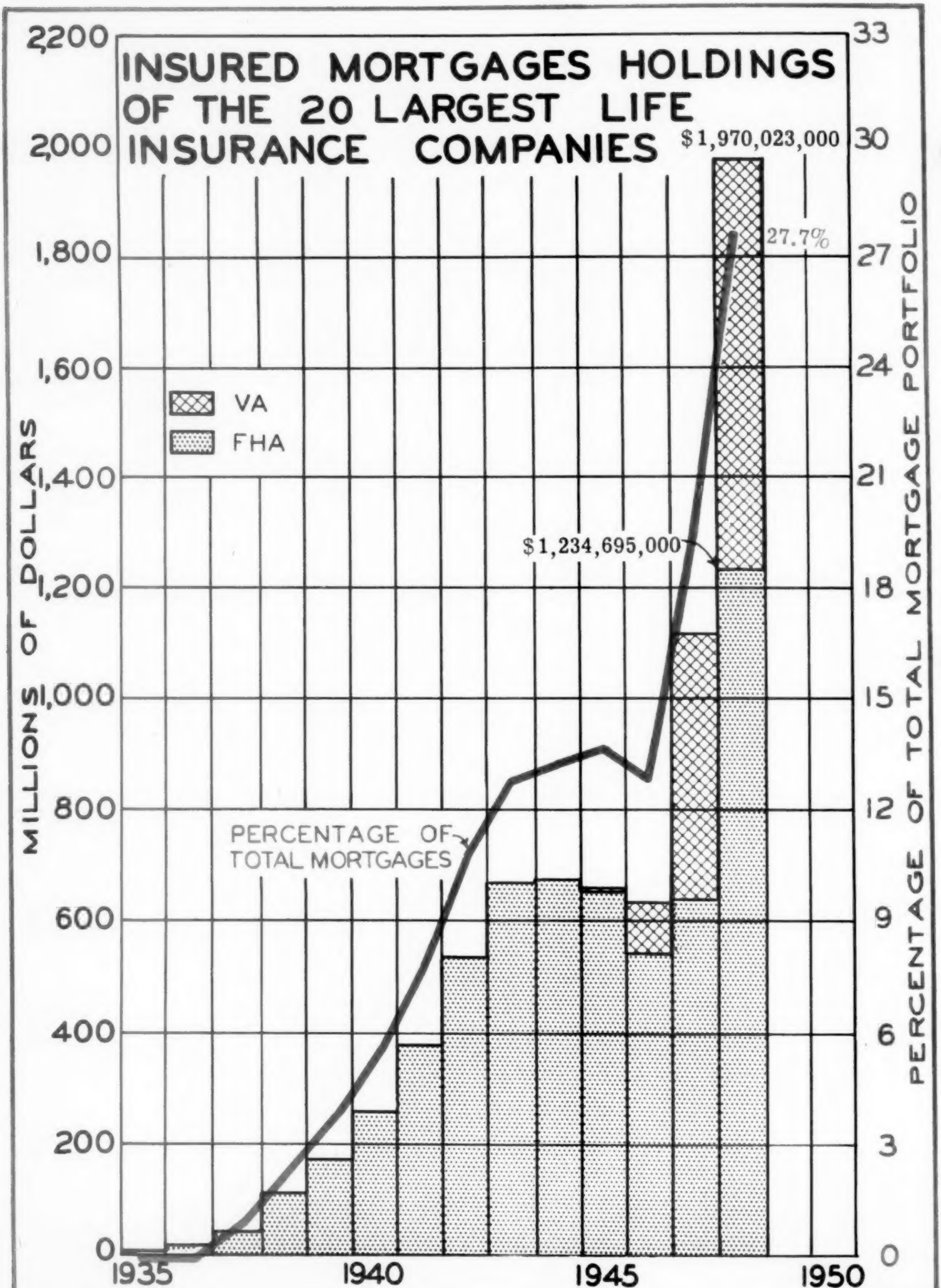
The trend in real estate holdings since 1946, however, has apparently been slightly upward. Although the number of properties held either outright or in portfolio is below the 1941 total, it is very probably somewhat above the 1946 total. We say this because the dollar volume of real estate holdings totaled $7.877 billion in 1948 against $5.349 billion in 1946. This is an increase of 47% in total value. Since most real estate values did not increase quite that much during the 1946-1948 period, this would indicate that the holdings of these companies are growing in number.

## REAL ESTATE HOLDINGS OF THE 20 LARGEST LIFE INSURANCE COMPANIES

| Year | R. E. owned 000's | Mortgage portfolio 000's | Housing Projects: Value 000's | Housing Projects: as % of R. E. owned | Housing Projects: as % of R. E. & mortgages owned | Insured Mortgages*: Value 000's | Insured Mortgages*: as % of mortgage portfolio |
|---|---|---|---|---|---|---|---|
| 1935 | $1,517,388 | $4,390,740 | $ 8,909 | 0.6% | 0.15% | $ 2,377 | ** |
| 1936 | 1,636,470 | 4,140,927 | 9,689 | 0.6 | 0.17 | 12,857 | 0.3% |
| 1937 | 1,668,049 | 4,170,868 | 9,578 | 0.6 | 0.16 | 39,425 | 0.9 |
| 1938 | 1,666,432 | 4,318,198 | 14,974 | 0.9 | 0.25 | 103,278 | 2.4 |
| 1939 | 1,629,269 | 4,341,274 | 33,225 | 2.0 | 0.56 | 167,476 | 3.9 |
| 1940 | 1,578,977 | 4,463,930 | 60,077 | 3.8 | 0.99 | 253,522 | 5.7 |
| 1941 | 1,434,880 | 4,823,829 | 73,393 | 5.1 | 1.17 | 376,636 | 7.9 |
| 1942 | 1,260,955 | 5,008,750 | 88,607 | 7.0 | 1.41 | 537,737 | 10.7 |
| 1943 | 1,021,558 | 4,894,064 | 109,089 | 10.7 | 1.84 | 627,062 | 12.8 |
| 1944 | 800,349 | 4,966,194 | 113,134 | 14.1 | 1.96 | 660,027 | 13.4 |
| 1945 | 632,361 | 4,677,765 | 114,593 | 18.1 | 2.16 | 644,925 | 13.8 |
| 1946 | 546,863 | 4,803,851 | 122,258 | 22.4 | 2.28 | 628,257 | 13.1 |
| 1947 | 662,738 | 5,708,658 | 171,848 | 25.9 | 2.70 | 1,111,727 | 19.5 |
| 1948 | 776,545 | 7,101,253 | 224,779 | 28.9 | 2.85 | 1,970,023 | 27.7 |

*FHA mortgages and (from 1945) VA mortgages.
**Less than 0.1%.

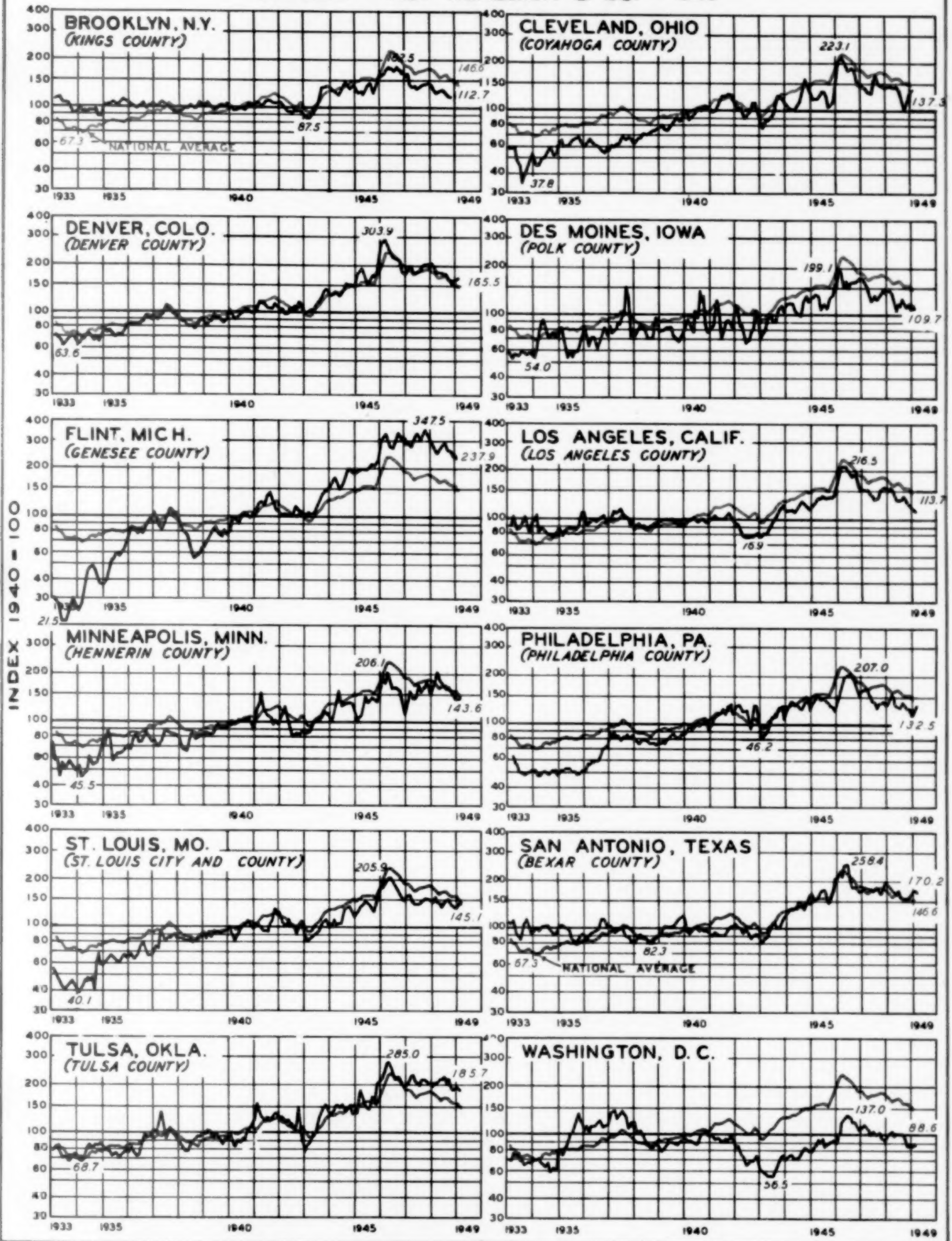




INSURED MORTGAGES HOLDINGS OF THE 20 LARGEST LIFE INSURANCE COMPANIES
$1,970,023,000
27.7%
$1,234,695,000
VA
FHA
PERCENTAGE OF TOTAL MORTGAGES
MILLIONS OF DOLLARS
PERCENTAGE OF TOTAL MORTGAGE PORTFOLIO
2,200
2,000
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
33
30
27
24
21
18
15
12
9
6
3
0
1935
1940
1945
1950

# REAL ESTATE TRANSFERS IN PRINCIPAL CITIES





# INDICATORS OF REAL ESTATE ACTIVITY IN PRINCIPAL CITIES

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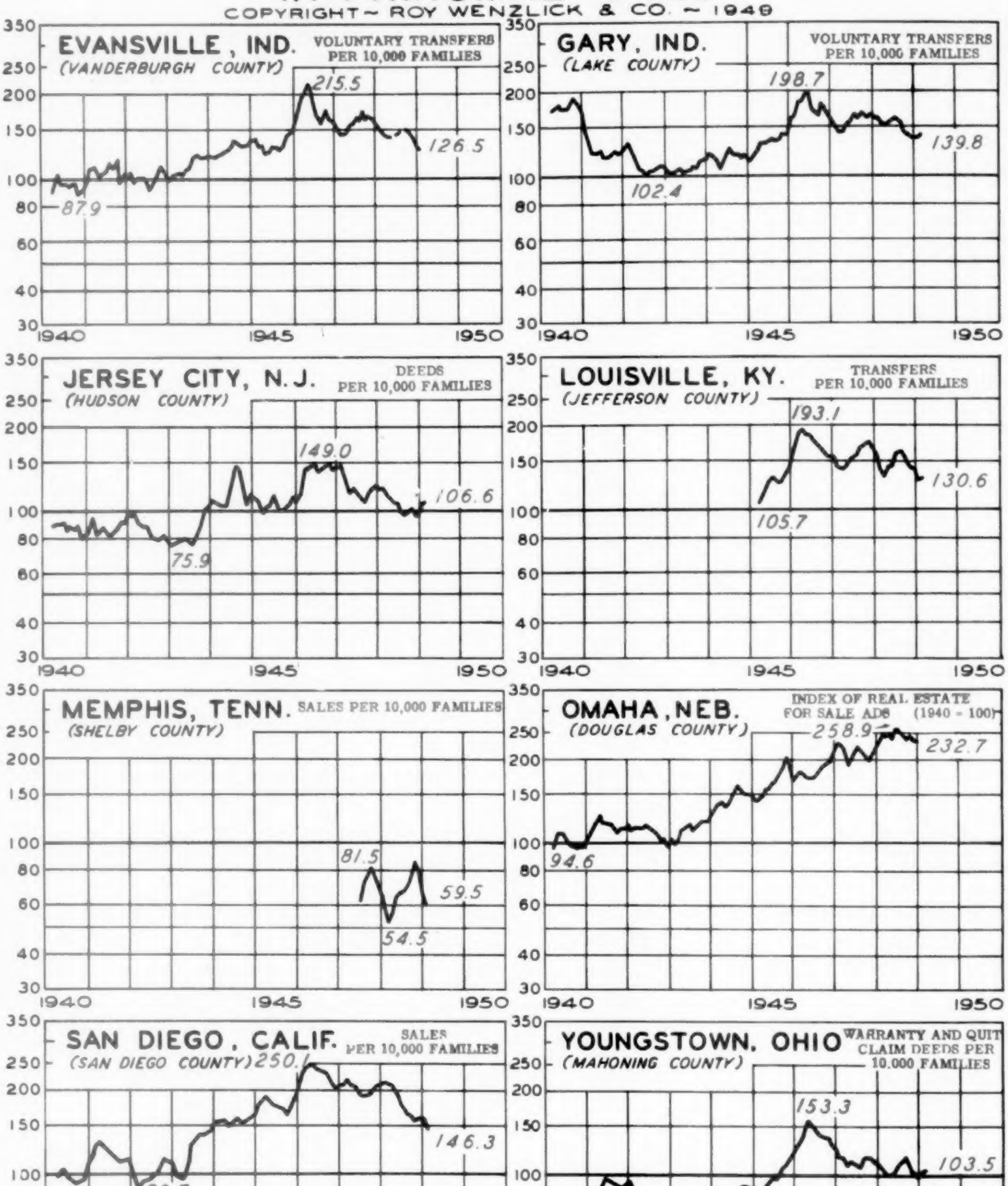


**LABOR ALSO SHARES ITS WEALTH**
(cont. from page 108)

dropped down near to the cost of living line, and in some cases below, by the burden of taxation.

The reason labor's standard of living is not higher is not through inadequacy of their earnings but because so much of their pay goes to the government. Additional handouts are certain to cost all classes, including labor, dearly, either through increased taxes or a lower living standard.

It is unavoidable to pay heavy taxes during war time and foolish to be parsimonious regarding national defense. And it does not require particularly keen foresight to recognize that the budget will be very large for many years to come. We believe, however, that the nation's interests can best be served by turning a deaf ear to the blandishments of socialism. For this reason we have been more or less violently opposed to many of the proposals offered by the Roosevelt-Truman Administration.

If the voters who habitually succumb to the "something for nothing" offers can be brought to a strong realization of the cost to them of government services, perhaps they will not prove so susceptible to these arguments in the future.

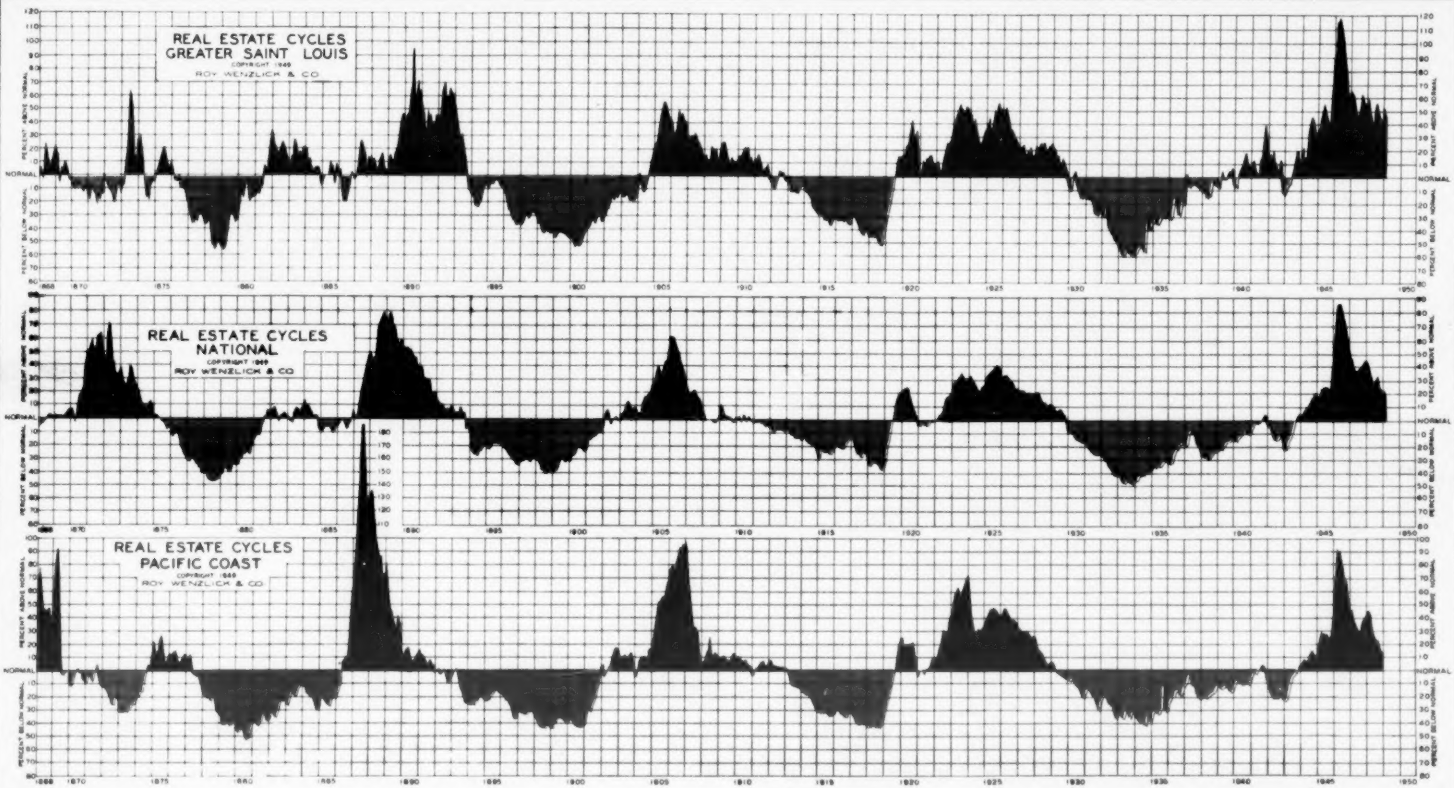
## NATIONAL AND LOCAL REAL ESTATE CYCLES

SINCE real estate is fixed in location and is subject to local conditions to a greater extent than almost any other commodity, it would seem that real estate cycles would be more or less local phenomena. However, it has been known for some time that instead of being isolated by its local nature, real estate activity in the different cities and sections of the country follows the national pattern very closely.

On page 116 we have charted the real estate activity cycle of St. Louis, the Pacific Coast and the United States from 1868 to the present. Theoretically, the charts on St. Louis and the Pacific Coast should be greatly dissimilar, and it will be noticed that some dissimilarities show up during the early periods of the chart. In 1868 the city of St. Louis was a thriving city of over 350,000 people, mostly of Bohemian and German descent. It was, as now, quite conservative. The Pacific Coast was rather thinly settled and was peopled by a younger, less conservative group.

Then too, the Pacific Coast was virtually isolated from the rest of the country during this time. It was more or less "beyond the pale" insofar as reacting to national impulses and influences. For years it was a law and an empire all to its own. The first real estate boom on the Pacific Coast was in all probability started by the increase in the price of gold. From 1862-1864 the price of gold rose from $20.67 to $40 per ounce. Since most of this gold was produced on the Pacific Coast, a wave of tremendous prosperity resulted. The following real estate depression was very probably more severe than in other parts of the country because the official price of gold went back to $20.67 per ounce in 1879.

(cont. on page 116)

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As transportation and communication improvements gradually wove the Pacific Coast into closer contact with the rest of the nation, the similarities in the real estate cycles became more pronounced. Since the boom of the 1880's the Pacific Coast has been in close step with the other regions and cities of the country. These cycles are essentially measurements of the activity in the transfer of single-family residences. While all voluntary transfers are included, the number of single-family residences far outweighs the multi-family and commercial property sales. If it were possible to make a cycle chart of the transfers of these income-producing properties, we would find that the booms and depressions in this cycle would occur at a later date than in the cycles shown - perhaps by as much as three or four years.